

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Executive Department
State of Louisiana
Baton Rouge, Louisiana

January 24, 2001



Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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LEGISLATIVE AUDITOR

Daniel G. Kyle, Ph.D., CPA, CFE

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**EXECUTIVE DEPARTMENT
STATE OF LOUISIANA**
Baton Rouge, Louisiana

Management Letter
Dated December 13, 2000

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

January 24, 2001



DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
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BATON ROUGE, LOUISIANA 70804-9397

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December 13, 2000

HONORABLE M. J. "MIKE" FOSTER, JR., GOVERNOR
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2000, we considered the Executive Department's internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

The Annual Fiscal Report of the Executive Department is not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

In our prior management letter on the Executive Department for the year ended June 30, 1999, we reported findings relating to the internal audit function, inadequate payroll system controls - Executive Office, electronic data processing control weaknesses - Patients' Compensation Fund, lack of controls over medical malpractice premiums - Patients' Compensation Fund, inadequate fund balance - Patients' Compensation Fund, and inadequate subrecipient monitoring. The findings relating to the electronic data processing control weaknesses - Patients' Compensation Fund, lack of controls over medical malpractice premiums - Patients' Compensation Fund, and inadequate subrecipient monitoring have been resolved by management. The findings relating to internal audit function, inadequate payroll system controls - Executive Office, and inadequate fund balance - Patients' Compensation Fund are addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2000.

LEGISLATIVE AUDITOR

HONORABLE M. J. "MIKE" FOSTER, JR., GOVERNOR
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA

Management Letter, Dated December 13, 2000

Page 2

**Inadequate Fund Balance -
Patients' Compensation Fund**

For the ninth consecutive year, the Executive Department, Patients' Compensation Fund Oversight Board, did not maintain an adequate surplus in the Patients' Compensation Fund as required by Louisiana law. Louisiana Revised Statute 40:1299.44(A)(6)(a) requires that a surplus of 50% of the annual surcharge premiums, reserves established for individual claims, reserves established for incurred but not reported claims, and expenses be maintained in the fund.

For the fiscal year ended June 30, 2000, the accumulated balance of surcharges, reserves, and expenses is estimated to be \$432,980,841, which under Louisiana law would require a fund balance of \$216,490,421. As of June 30, 2000, the actual fund balance was \$84,860,890, resulting in a shortfall of \$131,629,531. This shortfall resulted from practices in effect before the Patients' Compensation Fund Oversight Board was created, whereby rates for medical malpractice premiums were not set based on experience ratings, including historical losses, interest payments, and future medical amounts.

The board should establish an adequate rate level to achieve the 50% surplus requirement over a reasonable period of time. The board concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

Internal Audit Function

For the ninth consecutive year, the Executive Department does not have an effective internal audit function to examine, evaluate, and report on its internal controls (including data processing) and to evaluate compliance with the policies and procedures that comprise internal controls.

Considering the department's reported assets of \$111,119,921 and its operating revenues of \$358,153,981, an effective internal audit function is important to ensure that the department's assets are safeguarded and that the department's policies and procedures are uniformly applied. While the Executive Department included three internal audit positions in its budget request, the funding for these positions was not included in the Appropriation Act (Act 10) of the 1999 Regular Session of the Louisiana Legislature.

The Executive Department should take the necessary steps to establish an effective internal audit function. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 3).

LEGISLATIVE AUDITOR

HONORABLE M. J. "MIKE" FOSTER, JR., GOVERNOR
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA

Management Letter, Dated December 13, 2000

Page 3

Delays in Posting and Filing of Records

The Patients' Compensation Fund (PCF) staff did not post over \$10 million in surcharges it received from health care providers to its subsidiary ledger and did not file certain provider-related documents for over a year. Also, because payments were not posted timely, the PCF did not reconcile its subsidiary ledger to the revenue recorded in the statewide accounting system. Good business practices and internal control require that records and documents be maintained and filed timely and that subsidiary records be reconciled to general accounting records. The PCF provides secondary medical malpractice insurance for health care providers. Health care providers enroll in the program by paying a surcharge to the fund, either through their primary insurer or, in the event that the provider is self-insured, by paying a surcharge directly to the PCF.

At the time of testing, the PCF had not posted \$10,302,202 of surcharge payments received between March 14, 2000, through June 12, 2000, to its Claim Track system, which is its subsidiary ledger. In addition, the PCF employees experienced difficulty locating the files that were selected for testing because of untimely filing in its provider files. These conditions increase the risk that an error may occur in the recording of revenue that may not be detected in a timely manner by the PCF employees in the normal course of their duties. Management identified the cause of these problems as a shortage in staffing.

The PCF should revise its procedures to ensure that the subsidiary ledger is posted on a weekly basis and is reconciled monthly to ISIS. Also, provider-related documents should be filed in a timely manner. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 4).

Lack of Time and Attendance and Leave Records

For the fourth consecutive year, the Executive Office did not have adequate controls relating to payroll transactions. The Executive Office does not require its senior management staff to submit time sheets unless they have taken leave during a pay period, and it does not require senior staff to use their annual or sick leave if they are out of the office for less than eight hours during the day. In addition, the Executive Office does not require non-senior staff to submit a leave slip for less than eight hours of sick or annual leave taken during a day, although the leave is required to be shown on their time sheets and deducted from their leave balances. Good internal control requires that all employees prepare and maintain time reports and leave records for each pay period.

Time and attendance records were reviewed for eight employees. For the ten pay periods tested (1) three employees did not prepare time sheets; (2) one employee did not prepare time sheets for seven of the ten periods tested; and (3) one employee did not prepare leave slips to support some of his leave taken. When accurate time and

LEGISLATIVE AUDITOR

HONORABLE M. J. "MIKE" FOSTER, JR., GOVERNOR
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA

Management Letter, Dated December 13, 2000

Page 4

attendance records are not maintained, the risk exists that leave balances will be overstated, resulting in an overpayment of leave benefits.

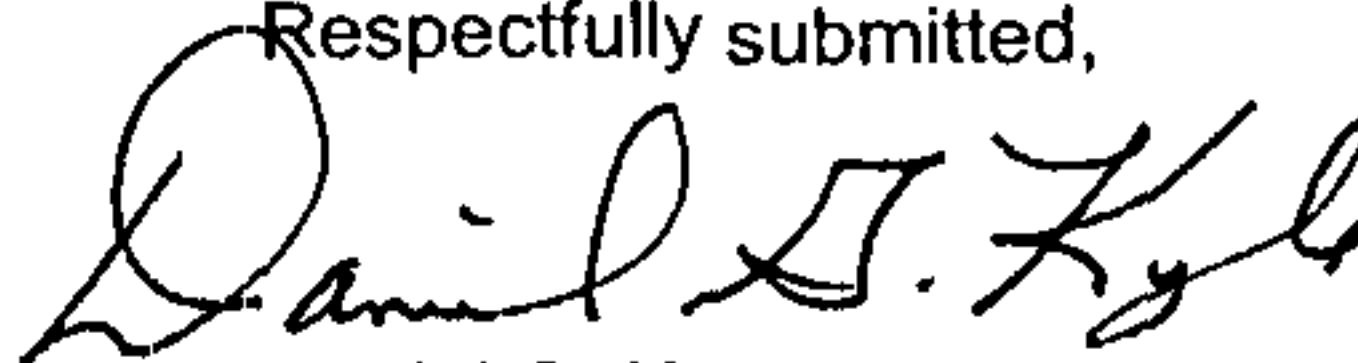
The Executive Office should establish adequate controls over payroll transactions to include a requirement that all employees prepare time sheets and leave slips, when applicable, for each pay period. Management partially concurred with the finding but stated that senior staff members are on call 24 hours a day and are exempt from completing time sheets. Management has developed a new Payroll Certification Form for senior staff to be implemented the beginning of the new year (see Appendix A, page 6).

Additional Comments: Time and attendance records, including leave slips for all leave taken, should be maintained for all employees, including senior staff, to ensure that state expenditures are supported by written documentation and that state employees are accountable for their time.

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the department should be considered in reaching decisions on courses of action. Findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of the department and its management and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

SE:WMB:PEP:dl

{EXEC00}

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations

State of Louisiana



PATIENTS' COMPENSATION FUND
OVERSIGHT BOARD
OFFICE OF THE EXECUTIVE DIRECTOR
650 NORTH SIXTH STREET
BATON ROUGE, LA 70802
(225) 342-6052
FAX (225) 342-6053

August 23, 2000

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Inadequate Fund Balance- Patient's Compensation Fund

Dear Dr. Kyle:

As requested, the Patient's Compensation Fund Oversight Board (Board) submits the following response to the above finding.

The Board agrees with the finding and the corrective action plan is attached. I will be the contact person responsible for the corrective action. We hope that in four years if everything goes as planned we can at least have an improved Fund balance.

Please call if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Kenny Aucoin".

Kenny Aucoin
Executive Director

INADEQUATE FUND BALANCE:

In response to the inadequate Fund balance finding, the following corrective action plan is offered. In November 1999, the Board received approval of a 15% average rate increase across the board. This rate increase had a positive affect on the actual Fund balance. It increased from \$71,597,885 to \$84,831,515 in one year.

With this increase passage, we are hoping that our actuary can get back on its original schedule of last year's plan. It was the actuary's finding last year that this 15% increase per year for four years would bring the Fund to the point that there would be no continuing escalation of the unfunded liabilities. After it had addressed the issue of stopping the escalation of unfunded liabilities, it was the plan of the Patient's Compensation Fund Oversight Board to continue with increases to reduce the unfunded liabilities, and thus achieve an adequate level of surplus over a period of four years.



M. J. "MIKE" FOSTER, JR.
GOVERNOR

State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF THE COMMISSIONER

MARK C. DRENNEN
COMMISSIONER OF ADMINISTRATION

August 14, 2000

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

Re: Audit Comment-Lack of Internal Audit Function in the Executive Department

We concur with the finding on this issue. This department did submit a request for 3 positions and associated funding in its fiscal year 2000-2001 budget request. Due to revenue constraints and inadequate pay levels this item was not approved for funding within the Governor's Executive Budget submission. We will again request funding for this activity in our fiscal year 2001-2002 budget submission.

While funding has been an issue, another issue remains which has prevented implementation within this agency. Although Civil Service positions have been established, it remains our opinion, that the pay grade allocations provided are inadequate to attract the level of personnel having the qualification to perform this function. Filling of positions with personnel not having the experience and qualifications to perform the functions is not a practical resolution.

We agree this issue is important, not only to this department, but to all departments.

Sincerely,

Mark C. Drennen
Commissioner of Administration

MCD/wjk

State of Louisiana



**PATIENTS' COMPENSATION FUND
OVERSIGHT BOARD
OFFICE OF THE EXECUTIVE DIRECTOR**
650 NORTH SIXTH STREET
BATON ROUGE, LA 70802
(225) 342-6052
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pcf@lapcf.state.la.us

October 24, 2000

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Dr. Kyle:

The Patients' Compensation Fund concurs with the findings regarding delays in Posting and Filing of Records.

In May 2000, the PCF implemented a new mechanical filing system due to lack of filing space. We are working hard to get caught up from the transition. Management is currently taking an aggressive approach to correct these deficiencies. We have maintained the mail in alphabetical order during the process of obtaining the system. We hired restricted personnel to do nothing but file. The backlog in the posting is mostly due to the resignation of two key employees, followed by the hiring freeze, and then budget cuts. We were recently able to replace the two persons and they are in the process of being trained.

We will have mandatory work weekends for the next couple of weeks or until such time as we get caught up on our backlogs. After these workdays, our goal is to get caught up and stay current on both findings. Also, we intend to request two additional positions to ensure that we stay current in the posting of surcharges and filing.

Dr. Kyle, we at the PCF are working aggressively to get caught up both with the delays in Posting and Filing of Records. We are going to have mandatory workdays until our goal is accomplished.

State of Louisiana



**PATIENTS' COMPENSATION FUND
OVERSIGHT BOARD
OFFICE OF THE EXECUTIVE DIRECTOR**

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Page 2

I will be the contact person responsible for this action and plan on having these two findings under control within the next few months and by the end of the year.

Sincerely,

A handwritten signature in cursive script that reads "Kenny Aucoin".

Kenny Aucoin



M. J. "MIKE" FOSTER, JR.
GOVERNOR

State of Louisiana

OFFICE OF THE GOVERNOR

Baton Rouge

70804-9004

POST OFFICE BOX 94004
(225) 342-7015

December 1, 2000

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804

Dear Dr. Kyle:

My office is in receipt of your audit findings within the Office of the Governor's payroll system controls. Upon receipt and review of your findings, we are providing the following response.

Senior Staff:

- ◆ As stated in all of our previous responses, senior staff members are on call for the Governor twenty-four hours a day, seven days a week without regard for holidays or vacation. The hours worked by the senior staff are nearly always more than eight hours daily and work is usually performed on holidays and weekends. Because it would be inappropriate if any employee would sign a sworn statement that he has worked eight hours on a specific day but actually have worked more or fewer hours, we feel that our senior staff members should be exempted from completing time sheets. Moreover, we are implementing a certification form to be signed by senior staff. We have put this form together (see attached) and it will be implemented at the beginning of the new year.

Finding 1:

- ◆ We concur with your finding regarding the three employees not having prepared a time sheet. However, these are exempted employees and they are not required to submit a time sheet.

Finding 2:

- ◆ We concur with your finding. However, the employee that did not prepare time sheets for the seven periods is also an exempted employee and is not required to submit time sheets.

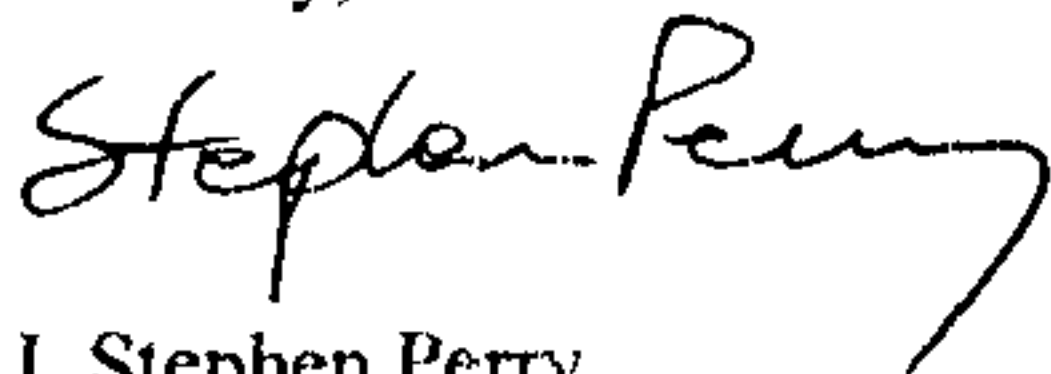
Page 2
Dr. Kyle
December 1, 2000

Finding 3:

- ◆ We concur with your finding. However, the leave slip has been submitted and placed in the file.

It is the policy of this office not to require senior staff members to submit a time sheet. However, we will implement the certification form for our senior staff and the anticipated date for implementation will be the first of the year.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen Perry". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

J. Stephen Perry
Chief of Staff

cdn
Attachment

**OFFICE OF THE GOVERNOR
PAYROLL CERTIFICATION**

I certify to the best of my knowledge, that all leave I have taken of any type during this payroll period has been reported and that the leave time together with my hours worked, plus holidays, equal the required number of hours commensurate with the conditions of my appointment. If sick or annual leave was taken, attached is a leave slip.

Employee _____ Pay Period _____